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MIEC QUARTERLY MEETING  
AUGUST 21, 2009

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10 The following speech was taken on August  
11 21, 2009 between the hours of 10:30 a.m. and  
12 11:00 a.m. at the offices of Bryan Cave, 211  
13 North Broadway, in the City of St. Louis, State  
14 of Missouri, before Rebecca Brewer, Registered  
15 Professional Reporter, Certified Realtime  
16 Reporter, Missouri Certified Shorthand  
17 Reporter, and Notary Public within and for the  
18 State of Missouri.

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1 A P P E A R A N C E S

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3 Mr. Terry Jarrett

#### 4 Public Service Commission

5 State of Missouri

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1           MR. JARRETT: Well, thank you all for  
2   having me. I'm sitting here at the head of the  
3   table. I feel like the CEO of CEOs, so feel kind  
4   of drunk with power a little bit, so bear with me.  
5   Anyway, I appreciate the opportunity to come and  
6   speak to you today. As a commissioner and a  
7   regulator, my usual role is to sit as decision  
8   maker in cases. You know, I get to review evidence  
9   and listen to testimony presented by the parties in  
10   a case. And then I have to make a decision based  
11   on the facts and the law. And I get to hear from  
12   you in the context of those cases, but a lot of  
13   times you don't get to hear from me except in the  
14   context of our written decisions. So since I am  
15   here, I would like to take the opportunity to give  
16   you a taste or a flavor, if you will, of what it is  
17   like to be a regulator in today's world. First,  
18   I'm required to give my standard disclaimer. The  
19   opinions expressed in this presentation are mine  
20   and mine alone and are not those of the Commission,  
21   any commissioner other than myself, or any member  
22   of the staff of the Commission. Further, nothing  
23   in this presentation should be attributed to any  
24   case or matter before the Commission, to any member  
25   of the staff of the Commission, other

1 commissioners, or the Commission itself. I don't  
2 have to tell that you we live in uncertain times  
3 that face many challenges. We must address  
4 difficult problems and there are no easy answers.  
5 It is no different with utility regulators. We  
6 face pressures and forces from people with  
7 competing agendas who attempt to influence what we  
8 do. They try to advance their own interests, but  
9 as regulators, we are required to see beyond  
10 private interests and advance the public interest.  
11 It is this delicate balance that we must achieve as  
12 regulators that offers us the greatest challenge.  
13 What is the public interest? It is often not  
14 necessarily what the parties are seeking in the  
15 case, although that certainly is part of it. But  
16 the public interest is more than that. Many times,  
17 in the context of the case, it is difficult for  
18 regulators to determine the public interest,  
19 because the parties are adept at concealing their  
20 private goals in public interest language. I have  
21 seen utility companies insist that only a  
22 12 percent return on equity, which is a private  
23 interest desire, will prevent debilitating bond  
24 downgrades, which is a legitimate public interest  
25 concern. But then they will go and settle a

1 10 percent ROE, exposing their public interest  
2 argument as a sham. Industrials often argue for  
3 discounts below fully allocated costs, which is a  
4 private interest desire, arguing that without rate  
5 reductions they will depart, shifting fixed costs  
6 to other rate payers, which is a legitimate public  
7 interest argument, while offering no facts on their  
8 destination which evidence will reveal their  
9 strength or weakness of their argument.

10 Residential customers often argue that utilities  
11 are not incurring costs prudently, which is a  
12 legitimate public interest argument but, then  
13 again, they will settle, allowing utility to  
14 recover many of those costs they argued against,  
15 again, exposing the public interest argument as a  
16 sham. Sorting through all of this noise in the  
17 case makes it difficult for us as regulators to  
18 determine how to advance the public interests.

19 Layer on top of this our current economic  
20 situation. Credit markets are tight, which means  
21 that utilities must borrow at higher interest rates  
22 if they can get capital at all, which increases  
23 their costs. New infrastructures needed in all  
24 utility sectors, be it electric, gas, water, or  
25 telecommunications. Industrials are in trouble

1 because their orders are down and worldwide  
2 competition does not allow them to make a decent  
3 profit when they can sell their goods. Residential  
4 customers are hurting with high unemployment rates,  
5 lower wages, and an increasing elderly population  
6 on fixed incomes. The political situation is also  
7 cause for concern. Cap in trade legislation, if  
8 passed, would increase rates in Missouri  
9 exponentially. Other environmental requirements  
10 add costs that will have to be passed along to the  
11 rate payers. Renewable portfolio standards require  
12 utilities to expand their green initiatives when  
13 the technology is not always here yet to support  
14 such ambitious goals, and the costs of current  
15 technology is prohibitive. Legislatures  
16 increasingly attempt to influence the regulator's  
17 decisions in specification cases before the  
18 evidence in this case is even presented. As we  
19 have seen in the current health care debate, the  
20 public is becoming increasingly angry and vocal  
21 about their concerns with higher taxes, rising  
22 costs, and government intrusion into private lives,  
23 despite a national agenda that is pushing strongly  
24 for more and more government, factoring yet another  
25 complication; public scrutiny. Newspaper editorial

1 boards, with their own agendas, improperly question  
2 the impartiality of the commission, find difficult  
3 problems where there are none, and stereotype  
4 commissioners. Editorial cartoons mock individual  
5 commissioners. This erodes public confidence in  
6 regulators at a time when confidence in government  
7 is generally at an all time low. With all of this  
8 going on, how do we, as regulators, function  
9 effectively to advance the public interest? I have  
10 a few thoughts. First, collaboration. Current  
11 state statutes and rules encourage a continuing  
12 dialogue between commissioners and stakeholders.  
13 It is imperative that commissioners continue to be  
14 allowed to attend meetings like this to discuss  
15 general regulatory issues. Only when we are fully  
16 informed can we as regulators truly advance the  
17 public interest. Flexibility is another one. As a  
18 commissioner, I believe that I need as many tools  
19 as possible in my toolbox to do a good job. We  
20 must develop innovative ways to address new  
21 problems. Having the flexibility is key to  
22 formulating sound public policy and solving  
23 difficult issues. Creating obstacles at owners'  
24 regimes limiting commissioner's options only  
25 subverts this goal. And, finally, transparency.

1 As a commission, we must be as transparent as  
2 possible so that the public can have confidence in  
3 what we do. That includes laws and rules that  
4 provide a workable framework which recognizes that  
5 regulators, not just decision makers, within the  
6 context of cases and that clearly recognize our  
7 obligation to the public interest. Hard questions  
8 and difficult issues do not lend themselves to easy  
9 answers. We are not working in a business as usual  
10 or business as it has been environment. As  
11 regulators, we must recognize that new thinking,  
12 new ideas, and fresh approaches are going to be  
13 necessary as we address new issues that were  
14 unknown 50 years ago. These new issues include  
15 energy efficiency, demand side management,  
16 renewable portfolio standards, greenhouse gas  
17 emissions, credit markets that are learning the new  
18 status quo, tackling unprecedented challenge in  
19 every aspect of business management, as well as the  
20 new world economy and the injection of competition  
21 which it brings to every level. That is why it is  
22 critical for us to have the information and facts  
23 and evidence in cases that can guide us in  
24 balancing the individual elements of the public  
25 interest. I want to leave you with two points.

1 First, I hope that I have conveyed that I truly  
2 understand the problems that you face. Economic  
3 development is an important part of the public  
4 interest. Customers deserve safe and reliable  
5 service at the lowest reasonable rates. Utilities  
6 must have adequate revenue to provide that safe and  
7 reliable service as well as earn a reasonable  
8 return on their investment. Second, I hope that I  
9 have given you insight into the difficult job we  
10 face as regulators in balancing all of these  
11 competing interests. While it may be difficult, it  
12 is a job that I do not shy away from. Only by all  
13 of us working together can we forge new policies  
14 and solutions to the challenges we face. With  
15 that, I thank you.

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1 STATE OF MISSOURI)  
2 CITY OF ST. LOUIS)SS

3 I, Rebecca Brewer, Registered Professional  
4 Reporter, Certified Real-time Reporter, and  
5 Notary Public in and for the State of Missouri  
6 do hereby certify that the foregoing speech in  
7 the foregoing meeting was taken by me to the  
8 best of my ability and thereafter reduced to  
9 typewriting under my direction; that I am  
10 neither counsel for, related to, nor employed  
11 by any of the parties to the action in which  
12 this deposition was taken, and further that I  
13 am not relative or employee of any attorney or  
14 counsel employed by the parties thereto, nor  
15 financially or otherwise interested in the  
16 outcome of the action.

17 \_\_\_\_\_ RPR, MO-CCR,  
18 Notary Public within and for the State of Missouri

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21 My Commission expires April 7, 2013.

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